



DEPARTMENT OF THE TREASURY
INTERNAL REVENUE SERVICE
WASHINGTON, D.C. 20224 1

OFFICE OF
CHIEF COUNSEL

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May 26, 2000

The Honorable John Warner
United States Senator
World Trade Center, Suite 4900
101 West Main Street
Norfolk, VA 23510

Dear Senator Warner:

This letter responds to your inquiry dated April 25, 2000, on behalf of your constituent, [REDACTED]. [REDACTED] explains that the court receives payments that it must hold for parties in litigation. The court deposits these amounts into interest bearing bank accounts. [REDACTED] would like to clarify who is responsible for reporting the interest income and paying the federal income tax on that income.

The proper tax treatment depends on who is treated as the owner of the funds for federal income tax purposes. The determination of ownership, in turn, depends on whether the court-deposited funds are held in trust or in escrow for the parties, and when the parties have a right to their shares.

[REDACTED] may ask the Internal Revenue Service National Office to issue a ruling letter interpreting and applying the tax laws to the court's specific set of facts and circumstances. I have enclosed a copy of Revenue Procedure 2000-1, which describes the ruling process, for [REDACTED] consideration. The fees for letter rulings are discussed in Appendix A of the revenue procedure.

[REDACTED] says many state courts are concerned about the federal tax treatment of court-deposited funds. [REDACTED] suggests a conference to describe the issues. We would be glad to discuss these issues and the letter ruling procedure with [REDACTED] and [REDACTED].

I hope this information is helpful. If you need further assistance, please call
[REDACTED] or me at (202) 622-4910.

Sincerely,

George J. Blaine
Chief, Branch 1
(Income Tax & Accounting)

Enclosure